INTRODUCTORY STATEMENT

PRESS CONFERENCE

Mario Draghi, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 26 July 2018

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Regarding **non-standard monetary policy measures**, we will continue to make net purchases under the asset purchase programme (APP) at the current monthly pace of €30 billion until the end of September 2018. We anticipate that, after September 2018, subject to incoming data confirming our medium-term inflation outlook, we will reduce the monthly pace of the net asset purchases to €15 billion until the end of December 2018 and then end net purchases. We intend to reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of our net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

While uncertainties, notably related to the global trade environment, remain prominent, the information available since our last monetary policy meeting indicates that the euro area economy is proceeding along a solid and broad-based growth path. The underlying strength of the economy confirms our confidence that the sustained convergence of inflation to our aim will continue in the period ahead and will be maintained even after a gradual winding-down of our net asset purchases. Nevertheless, significant monetary policy stimulus is still needed to support the further build-up of domestic price pressures and headline inflation developments over the medium term. This support will continue to be provided by the net asset purchases until the end of the year, by the sizeable stock of acquired assets and the associated reinvestments, and by our enhanced forward guidance on the key ECB interest rates. In any event, the Governing Council stands ready to adjust all of its instruments as appropriate to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Quarterly real GDP growth moderated to 0.4% in the first quarter of 2018, following growth of 0.7% in the previous three quarters. This easing reflects a pull-back from the very high levels of growth in 2017 and is related mainly to weaker impetus from previously very strong external trade, compounded by an increase in uncertainty and some temporary and supply-side factors at both the domestic and the global level. The latest economic indicators and survey results have stabilised and continue to point to ongoing solid and broad-based economic growth, in line with the June 2018 Eurosystem staff macroeconomic projections for the euro area. Our monetary policy measures, which have facilitated the deleveraging process, continue to underpin domestic demand. Private consumption is supported by ongoing employment gains, which, in turn, partly reflect past labour market reforms, and by growing household wealth. Business investment is fostered by the favourable financing conditions, rising corporate profitability and solid demand. Housing investment remains robust. In addition, the broad-based expansion in global demand is expected to continue, thus providing impetus to euro area exports.

The risks surrounding the euro area growth outlook can still be assessed as broadly balanced. Uncertainties related to global factors, notably the threat of protectionism, remain prominent. Moreover, the risk of persistent heightened financial market volatility continues to warrant monitoring.

Euro area annual HICP inflation increased to 2.0% in June 2018, from 1.9% in May, reflecting mainly higher energy and food price inflation. On the basis of current futures prices for oil, annual rates of headline inflation are likely to hover around the current level for the remainder of the year. While measures of underlying inflation remain generally muted, they have been increasing from earlier lows. Domestic cost pressures are strengthening and broadening amid high levels of capacity utilisation and tightening labour markets. Uncertainty around the inflation outlook is receding. Looking ahead, underlying inflation is expected to pick up towards the end of the year and thereafter to increase gradually over the medium term, supported by our monetary policy measures, the continuing economic expansion, the corresponding absorption of economic slack and rising wage growth.

Turning to the **monetary analysis**, broad money (M3) growth increased to 4.4% in June 2018, up from 4.0% in May. M3 growth continues to benefit from the impact of the ECB's monetary policy measures and the low opportunity cost of holding the most liquid deposits. The narrow monetary aggregate M1 remained the main contributor to broad money growth.

The recovery in the growth of loans to the private sector observed since the beginning of 2014 is proceeding. The annual growth rate of loans to non-financial corporations rose to 4.1% in June 2018, after 3.7% in the previous month, while the annual growth rate of loans to households remained unchanged at 2.9%. The euro area bank lending survey for the second quarter of 2018 indicates that loan growth continues to be supported by easing credit standards and increasing demand across all loan categories.

The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – in particular for small and medium-sized enterprises – and credit flows across the euro area.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Regarding **fiscal policies**, the ongoing broad-based expansion calls for rebuilding fiscal buffers. This is particularly important in countries where government debt remains high. All countries would benefit from intensifying efforts towards achieving a more growth-friendly composition of public finances. A full, transparent and consistent implementation of the Stability and Growth Pact and of the macroeconomic imbalance procedure over time and across countries remains essential to increase the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council urges specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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In the assessment you just presented, did you have a chance to review the agreement struck between the EU Commission President and the US President overnight with regard to trade? Is this assessment only regarding sentiment regarding protectionism? Or are you seeing an actual impact on growth already materialising?

The second question is a 'did you discuss' question: did you discuss your reinvestment policy today and if so, could you give us any kind of colour about this discussion? What decisions need to be made and when should we expect a decision on reinvestment policy?

Draghi: On the first question really, we basically took note of that. It's too early to assess the actual content. I understand that this afternoon the Commission is having a meeting exactly for this reason. We took note of this meeting and if one can say something that's general, it's a good sign because it shows that there is a willingness to discuss trade issues in a multilateral framework again. It would be difficult for us to go beyond that because we really don't know the substance of it.

On the second question, no, we didn't discuss the reinvestment policy today.

You've suggested that interest rates will stay below zero for the next year or so. How comfortable are you making those kind of predictions or forecasts so far into the future given inflation is already above target and you sound relatively confident about the outlook for the economy and inflation?

My second question is, so the ECB is holding rates below zero while the Fed is raising rates quite quickly; I think it plans another two rate hikes this year. That's leading to a divergence between the two central banks, which has also weighed on the euro over the last few months. Do you think President Trump has a point when he complains about how Europe is weakening its currencies?

Draghi: On the first question, let me stress that our enhanced forward guidance, which is both date-based and state-contingent, conveys the Governing Council's expectations that key ECB interest rates, as I said in the Introductory Statement, will remain, we expect them to remain at their present levels at least through the summer of 2019 and, in any case, for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below but close to 2% over the medium term. Now, this enhanced forward guidance has been very effective, as broadly reflected in surveys, market commentary and market prices, in aligning expectations of the future rate path with the anticipations of the Governing Council. At this stage we don't see the need to modify or to add new language to our forward guidance on rates.

Now, on the second question, different monetary policies do reflect the response of monetary authorities to different positions in the business cycle. We said several times that the exchange rate is not a policy target; that it's important for growth and price stability. There is an international consensus that has been going on now for years – for decades, perhaps – about abstaining from competitive devaluations, so that's the answer.

Incidentally, if one looks at the nominal effective exchange rate of the euro vis-à-vis all the partners, all the trading partners, as a matter of fact the euro has appreciated considerably over the last year, year-and-a-half.

I have a question again about the impact of protectionism. You obviously mentioned that you take note of the agreement. But also in your accounts of the last meeting you said that the impact on inflation from potential protectionist measures could be – is ambiguous, uncertain. Have you taken a deeper look into it and maybe you have already answers or a potential impact from those effects?

My second question: I know that you mentioned you didn't discuss reinvestment policies, but could you give us a broad outline on sort of your red lines where reinvestment policies won't change in the second phase when the net asset purchases are over?

Draghi: On protectionism, no, we haven't done any further analysis than I have outlined last time and the reason is that we basically have to see exactly what's going to be implemented. We've seen and we have analysed that the implemented, the direct effects of implemented tariffs, as I said last time, are limited. But clearly, a trade war where you have rounds of retaliation and rounds of responses would create an entirely different climate. We would have to assess both the direct effects, which may be significant as the numbers significantly go up, and the indirect effects of confidence on – especially on business investment. We haven't done anything different from last time yet, so we'll have to assess in the future.

Now, on the reinvestment, we haven't discussed it. Certainly, just to make it clear, the capital key remains our anchor in what we do on reinvestments, just to clear the slate from any doubt. That's it.

I have two questions as well: one on euro economic optimism for the eurozone because looking also at recent confidence indicators, there is a clear sign that the looming trade uncertainties have an impact already now and also looking at the current earning season. What makes you still so optimistic?

Second question would be on: given the inflation rate being back at your target, whether there is an increasing discussion inside the Governing Council among its members. Of course that it’s perhaps time to even decrease the monetary stimulus in place.

Draghi: I think the best way to answer both questions is to give you a short account of what's been our discussion today. Well, first of all, the Governing Council took note that there hasn't been much of a change since last time; has not been a change in the assessment of the outlook – of the medium-term outlook – for growth or inflation, nor in the monetary policy message.